Ageing and its implications for the labour market and fiscal policy

Findings from the PL Country Report

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Country reports / European Semester

• European Semester: framework for the coordination of economic policies between the countries of the European Union; annual cycle
• Country reports published on 22 February 2017
• Commission currently preparing its proposal for Country Specific Recommendation for the Council
• PL country report in particular covers various aspects of ageing
2016 Recommendation (CSR2)

• **Ensure the sustainability and adequacy of the pension system** (...) by starting to reform the preferential pension arrangements, removing obstacles to more permanent types of employment (...)

• CSR2 progress assessment: no progress, key measure in the opposite direction
Plan of the presentation – main messages

• Shrinking working age population → negative impact on labour force and potential GDP growth
• Importance of encouraging labour force participation
• Future pension adequacy an issue – lower retirement age likely to worsen it significantly
• Fiscal sustainability risks stemming from: lower GDP growth potential & questions on adequacy of future pensions
Special pension regimes

• System for farmers – KRUS:
  o Low level of benefits
  o Heavily subsidised - fiscal costs
  o Adds to barriers to inter-sectoral mobility; incentives for informal employment

• System for miners:
  o High level of benefits
  o Heavily subsidised - fiscal costs
  o Impact on sector restructuring?
Shrinking labour force

• Increasing labour force participation key
• Room for improvement especially for selected groups
Labour market participation of older workers

• Despite strong current performance, the labour market faces constraints as regards participation
• Employment rates lower than the EU average: [...]older people
• For older workers this is linked to low skills and educational attainment levels; low female statutory retirement also matters
Lower statutory retirement age

• Several recent measures may further reduce labour force participation.
  o Lowering the statutory retirement age in late 2017 is expected to lead to some older workers withdrawing from the labour force.
Possible measures – labour market

• Fertility support measures – very long run only
• Incentives for working longer
• Migration plays an increasingly important role in the Polish labour market.
  o Temporary immigration, mostly from Ukraine, and to a lesser extent from Belarus and other countries, is an increasingly important phenomenon
Pension adequacy

- Currently pensions effective protection against poverty
- Bound to fall substantially in the future (even with retirement age at 67)
- Benefit levels depends on
  1. age at retirement
  2. number of years contributing and contributed amounts
- not only salary levels but also types of contracts matter – pension rationale for limiting excessive use of non-standard contracts
Pension replacement rates – different retirement age scenarios

• What are the implications of replacement rates at 20-25%?
Minimum pensions

• Very few people receive them at present
• Future role depends on indexation (political decision):
  o Low indexation → minimum pensions likely to fall below poverty lines
  o Higher indexation (e.g. maintaining the relation to the minimum / average wage) → a significant share of all retired with the minimum pension (e.g. ~ half of workers, especially women)
Selected macroeconomic and fiscal aspects of ageing

• Potential growth
• Fiscal sustainability of pension systems
Potential growth – the role of labour

- Determined by available labour, capital and productivity
- Labour contribution to drag growth potential for decades
- Participation & immigration as chances
- Quantity of labour likely to fall
- Productivity matters

Population aged 15-74
Retirement age changes matter for long-term growth

• Lowering of the statutory retirement age &
• Increasing the school starting age...

• ... may mean that (some) women will work 8 years less
• It is in the range of $\frac{1}{5}$ – $\frac{1}{4}$ of work careers
The fiscal outlook as of 2015 Ageing report

- Gross public pension expenditure declining slightly
- Drivers: effective retirement age & rapidly falling adequacy counterbalance ageing
The fiscal outlook – another view

• Pension expenditure likely to be higher
• Lower statutory age in itself adding some 0.5% of GDP per year up to 2050
• Minimum pensions: how much and how many eligible?
• Adequacy of pensions → sustainability of the pension system
Challenges – instead of conclusion

• How to significantly lengthen working careers?
• How to increase pension contributions?
• Migration strategy?
• Skills strategy?
• Public trust in the pension system – the quality of public debate on ageing and its implications